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U D G E T I N G

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U S I N E S S

B U D G E T I N G

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BREAKEVEN ANALYSIS AND CONTROL IN BUSINESS TODAY

By: John L. Marsh
Management Consultant
Detroit, Michigan

A breakeven point is not simply a statistic, it is a company's pivotal control point, however much depends on the attitude of the management, and the carefulness of construction exercised in the computation. The decision variables revealed through interpretation of the breakeven chart are numerous and are easily revealed and understood. As a fact clarifier, pertaining to alternative business decisions, the breakeven chart has no peer.

Most businesses today are energetically searching for new products to supplement or replace their existing lines. The pace of scientific advance makes it good business to spend huge sums on research in order to meet the competitive challenge of new or substitute products. As a result, probably every product in manufacture today should be looked upon as in some stage of obsolescence, even those products just being introduced.

Besides the breakneck pace of product change due to research, the cost-price inflation in our economy is hastening the drive of all business to find new and cheaper methods of producing and marketing existing products.

In addition, the recent recession has again brought to the forefront of businessmen's thinking, the desirability of keeping their organization lean and hard even when business is booming.

As a consequence of these pressures, business decisions are being made at an ever increasing

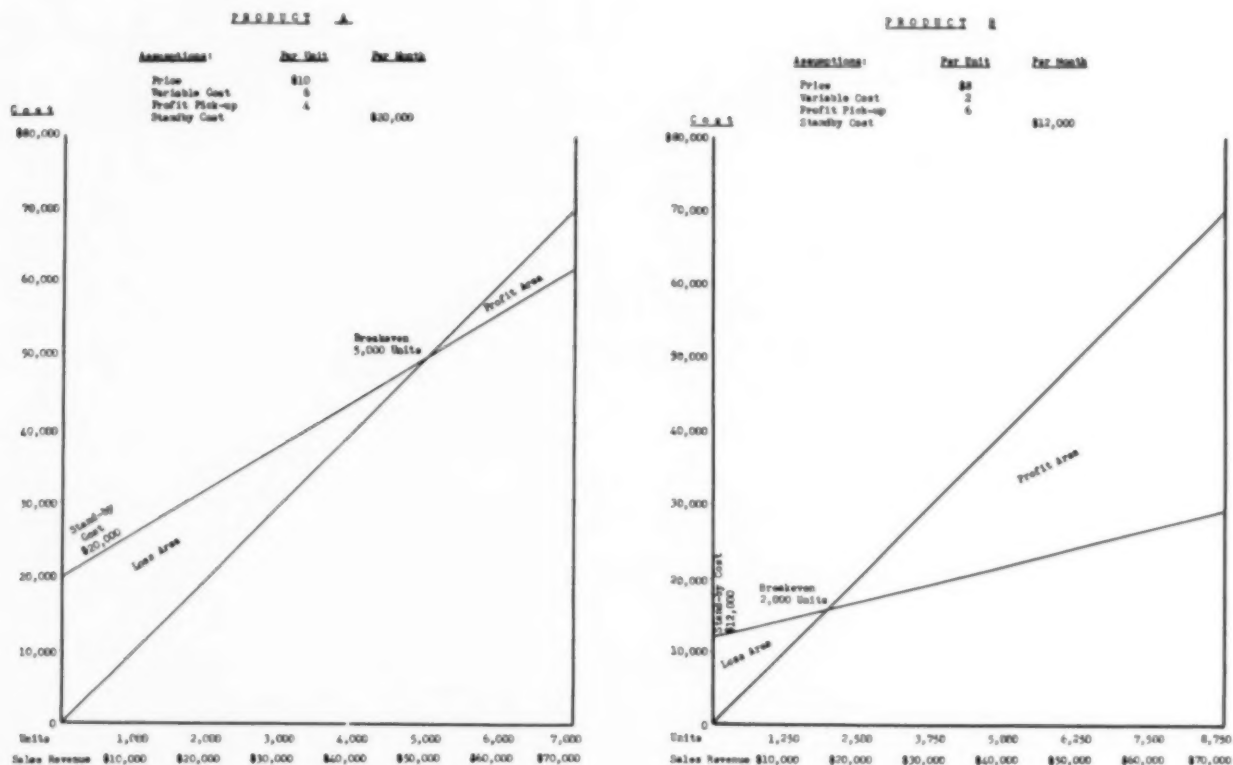
pace and risk. It is the purpose of this paper to discuss Breakeven Analysis and Control as an invaluable aid to businessmen in arriving at sound, minimum-risk decisions.

Breakeven Characteristics

Many businessmen tend to treat the breakeven point as an end statistic rather than the pivotal control point it really is. To develop the breakeven point, the cost-price-volume-mix relationships of the business must be determined. Once this has been done, the breakeven point can be computed, but it is not this fact alone that is important.

What is far more important is the fact that the breakeven characteristics of the business have been established. From these characteristics, a statistical matrix can be woven which makes it possible to evaluate the many alternatives generally available to the decision maker. In fact, alternatives not previously considered frequently suggest themselves.

To illustrate how the breakeven characteristics can be used to analyze alternatives, it is necessary to deal with specific examples. A Product A, Product B approach has been developed for this purpose.



Assuming that both Products A and B are currently selling at 6,000 units per month, the profit and loss statement would show the following results:

| | Product A | Product B |
|------------------------|-----------|-----------|
| Unit Sales | 6,000 | 6,000 |
| \$ Sales | \$60,000 | \$48,000 |
| Profit | \$ 4,000 | \$24,000 |
| Profit as a % of Sales | 6.7% | 50% |

If Product B were only selling at 2,680 units, it would make the same dollar profit as Product A, \$4,000, or 18.6% of sales.

The ability to predict, with some accuracy, profitability at varying volumes is the first tool of breakeven control. This, of course, is only possible because of the segregation of standby and variable costs. Caution must be exercised in making volume projections to limit them to volumes attainable within the stated standby investment.

There are numerous techniques used today to segregate standby and variable costs, but it is not within the scope of this paper to discuss them. However, inasmuch as standby costs include the depreciation and rent attributable to a given product, another useful measure is the % Return on Standby Investment. For the products in our example, this would be as follows:

| | Product A | Product B | Product B1 |
|--------------------------------|-----------|-----------|------------|
| Unit Sales | 6,000 | 6,000 | 2,680 |
| Profit | \$ 4,000 | \$24,000 | \$ 4,000 |
| Standby Investment | \$20,000 | \$12,000 | \$12,000 |
| % Return on Standby Investment | 20% | 200% | 33% |

It is evident that Product B has much more favorable profitability characteristics than Product A, not only from a profit and loss statement look, but also on a Return on Standby Investment measurement. It is also evident that Product B has far less volume and price vulnerability than Product A. This may be demonstrated in the table below, a small portion of the statistical matrix which can be developed once the breakeven characteristics have been determined.

| | Product A | | | Product B | | |
|---------------------------------------|-----------------------|----------------------------|--------------------------|-----------------------|----------------------------|--------------------------|
| | Units per Month | Profit (Loss) per Month | Breakeven Point Units | Units per Month | Profit (Loss) per Month | Breakeven Point Units |
| At Assumed Relationships | 2,500 | \$(10,000) | 5,000 | 2,500 | \$ 3,000 | 2,000 |
| | 5,000 | -0- | 5,000 | 5,000 | 18,000 | 2,000 |
| | 7,500 | 10,000 | 5,000 | 7,500 | 33,000 | 2,000 |
| After 10% Price Reduction | 2,500 | (12,500) | 6,667 | 2,500 | 1,000 | 2,308 |
| | 5,000 | (5,000) | 6,667 | 5,000 | 12,000 | 2,308 |
| | 7,500 | 2,500 | 6,667 | 7,500 | 27,000 | 2,308 |
| After \$2,000 Reduction in Standby | 2,500 | (8,000) | 4,500 | 2,500 | 5,000 | 1,667 |
| | 5,000 | 2,000 | 4,500 | 5,000 | 20,000 | 1,667 |
| | 7,500 | 12,000 | 4,500 | 7,500 | 32,000 | 1,667 |
| After 10% Reduction in Variable Costs | 2,500 | (8,500) | 4,347 | 2,500 | 3,500 | 1,935 |
| | 5,000 | 3,500 | 4,347 | 5,000 | 19,000 | 1,935 |
| | 7,500 | 15,500 | 4,347 | 7,500 | 34,500 | 1,935 |
| After 10% Price Increase | 2,500 | (7,500) | 4,000 | 2,500 | 5,000 | 1,764 |
| | 5,000 | 5,000 | 4,000 | 5,000 | 22,000 | 1,764 |
| | 7,500 | 17,500 | 4,000 | 7,500 | 39,000 | 1,764 |

Assume that Product A is under considerable competitive price pressure or probably will be in the near future. The foregoing table illustrates the profitability pattern which will result if a 10% price reduction must be made. If no cost reduction action is taken, instead of breaking even at 5,000 units a \$5,000 loss will be incurred at a 5,000 unit volume, because the price reduction has increased the breakeven point to 6,667 units.

Under these circumstances, the management is faced with a re-evaluation of what to do with Product A. Should it be abandoned? Can cost reduction measures restore its profitability? Can greater volume be promoted to offset the price reduction? As illustrated below, the statistical matrix can be expanded to evaluate the financial effect of any potential action which might be taken.

| | Present | 10% Price Reduction No Other Action | Reduce Variable Costs to Offset Price Reduction | Reduce Standby Costs to Offset Price Reduction | Promote New Volume to Offset Price Reduction | |
|--------------------------|----------|-------------------------------------|---|--|--|----------------|
| Price/Unit | \$ 10 | \$ 9 | \$ 9 | \$ 9 | \$ 9 | |
| Variable Cost/Unit | 6 | 6 | 5 | 6 | 6 | |
| Profit Pick-Up/Unit | 4 | 3 | 4 | 3 | 3 | |
| Standby Cost/Month | \$20,000 | \$20,000 | \$20,000 | \$14,000 | \$20,000 | |
| Breakeven Point-Units | 5,000 | 6,667 | 5,000 | 4,667 | 6,667 | At 8,000 Units |
| a/Profit at 6,000 Units | \$ 4,000 | \$(2,000) | \$ 4,000 | \$ 4,000 | \$4,000 | |
| Profit % of Sales | 6.7% | (3.7)% | 7.4% | 7.4% | 5.6% | |
| Profit Return on Standby | 20% | (10)% | 20% | 28.7% | 20% | |

a/ assumed present volume

From these statistics, it is apparent that the price reduction can be offset by:

- a. Reducing Variable Costs 16.8%
- b. Reducing Standby Costs 30.0%
- c. Increasing Volume by 11.2%

After evaluating the practical feasibility of taking any one or any combination of these steps, the management can make a sound decision. It may not be able to take any steps at all and may or may not decide to drop the product for other than purely financial reasons, but the decision can be taken with full knowledge of the financial consequences, because the breakeven characteristics of the product have been explored.

Breakeven Control

Breakeven analysis is dependent upon the marshalling of financial data in such a way as to make it possible to track cost-price-volume-mix relationships. Breakeven control is exercised when business decisions are taken with a full knowledge of the effect the decision at hand will have on the breakeven characteristics of the business.

Product decisions have been illustrated and discussed at some length in the foregoing, but many other business decisions have an impact on the breakeven point. Any decision affecting

cost-price-volume-mix relationships will obviously have an impact on the breakeven point. Control is exercised when the management fully understands that fact.

Make or buy decisions, rent or own decisions, staff or purchase service decisions, salary versus commission compensation decisions, to mention only a few, change the cost structure. Decisions to institute or alter discount or rebate plans, change the pricing formula, meet a particular competitive situation, and many others obviously affect the breakeven point. Decisions on advertising and sales promotion will have their impact on volume and mix. A management conscious of the effect of these decisions on the breakeven point of the business can be said to be exercising breakeven control.

A management exercising breakeven control can make a highly profitable business even more profitable. It will, in fact, be far better equipped to:

1. Meet the competitive challenge of new or substitute products coming from the laboratories.
2. Meet the challenge of the cost-price inflation squeeze.
3. Keep the organization hard and lean even in boom times.

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INTEGRATED COST CONTROL

Authors write best about their own experiences. This article by a railroad employee naturally tends toward analysis and solution of railroad problems. However, the article contains two charts - one functional and one organizational which can be universally applied if you are searching for new approaches to business economic controls. If integrated systems have merit, why not have all economic control functions, such as, financial planning, market research, procedures, industrial engineering, cost control and analysis and accounting under common control?

A cost control program should not be discussed without first considering the problem of integration. Integration problems are constantly being faced today in all fields of business, and particularly in the control areas of cost accounting and budgeting.

This author is associated with the transportation industry. The industry has only recently become cognizant of the need for a better system of cost control to replace special cost studies and formulas which are limited in their application. The discussion will be directed toward this industry but applies, generally, to all types of business enterprises.

Numerous articles have been published describing the advantages of cost control. Terminology used to explain techniques has been defined and re-defined, yet, management still asks, and rightly so, "What are these costs?" It is known that the cost accounting, budget and market research departments frequently use different cost figures for the same item. To add to the confusion, none of these figures tie in with the financial statements.

In many instances the virtues of new systems have been oversold in one area while ignoring the inter-relationship and inter-dependence of all departments in a company. Fortunately, cost control men seem to be profiting from past sins. To some extent the spotlight is swinging to broader areas. New phrases are being coined and

old ones revised to describe integrated cost accounting, responsibility accounting and managerial accounting as distinguished from financial accounting.

Management is being sold and re-educated in the use of these techniques and a feeling is being created that there is a solution to the following problems:

- What are the costs?
- How can inefficiencies be spotted as they occur?

When the cost area has arrived at a point where cost comparisons can be made to sales price, it can then be determined where a company is heading in terms of profit or loss. Meanwhile, the rate (or pricing) department could continue to fly blind from a cost standpoint. The range within which prices are determined is influenced by competition, what the market will bear, or a rate making commission. The rate department must rely upon the support of:

- Economic theories,
- A regulatory commission,
- Intuition generated from years of experience.

However, these methods cannot be criticized until the cost control area provides the rate department with new working tools and fully explains their uses and the purpose they will serve.

Industry has always maintained cost records

in one form or another to determine a measure of profit or loss on operations over a period of time. Increasing competitive forces have necessitated many changes in the struggle for cost control. Many advocates of budgetary control have concentrated so strongly in the budget area that they have overlooked the need for a well planned, thoroughly defined cost system that would make their plan work.

DEFINE PROGRAM

When planning a cost control program, one should first define what is expected from the cost control function:

1. Supply cost information that can be used in establishing competitive but profitable rates,
 - a. New rates – Assist in the determination of a price level that will contribute to an increased total profit, giving consideration to:
 - (1) The affect on existing rate structures,
 - (2) Whether the traffic is marginal or non-marginal,
 - (3) If it is marginal what added costs does it incur, or what is its utilization of capacity that could be assigned to more profitable items?
 - (4) How will it affect traffic mix, schedules and facilities required?
 - (5) Does it hold the potential of becoming a major portion of total traffic? If this takes place, how would it then affect the total profit picture?
 - (6) Should an incentive type rate be considered to assist in balancing traffic flow? If so, what elements of cost should be considered in establishing a rate?
 - b. Review of existing rates – Assist in determining where and to what degree rate structures must be adjusted to recognize such problems as:
 - (1) What rates are vulnerable to competition?
 - (2) What rates are sub-marginal?
 - (3) What effect would recommended changes have on total profits?
 - (4) What facilities may become surplus and idle as a result of abandonments or drying up certain traffic and could the facilities then be utilized in more profitable areas?
2. Provide cost data and assistance in the analysis to determine profitability of:
 - a. Geographic areas of operation (States)
 - b. Types of services offered

- c. Markets served (Cities)
- d. Patrons served
- e. Commodities
- f. Modes and/or methods of operation.
3. Identify opportunities for cost reduction,
4. Recommend where corrective action should be taken,
5. Provide control systems that are practical.
6. Supply various levels of management with the reports needed for control purposes,
 - a. Design the reports for the level of management being served.
 - b. Issue only those reports that are absolutely required by a management level. (Don't give them newspaper circulation or excess data)
7. Be sure that the cost collection systems and reporting systems coordinate with the budget reports, operating statements, and financial statements.

EXHIBIT A

DEVELOPMENT OF AN INTEGRATED COST CONTROL SYSTEM

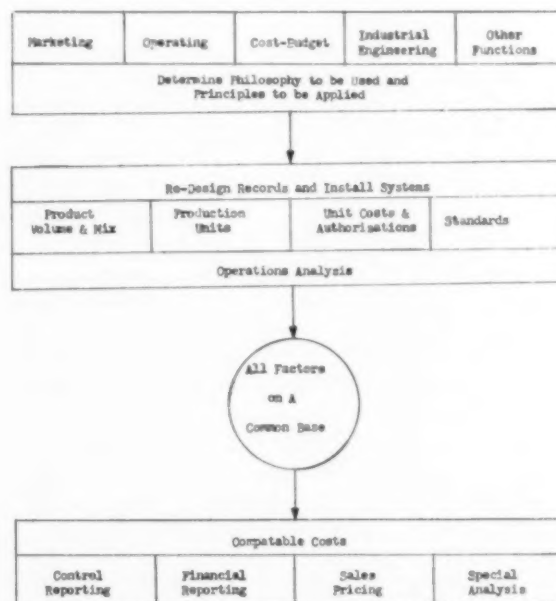


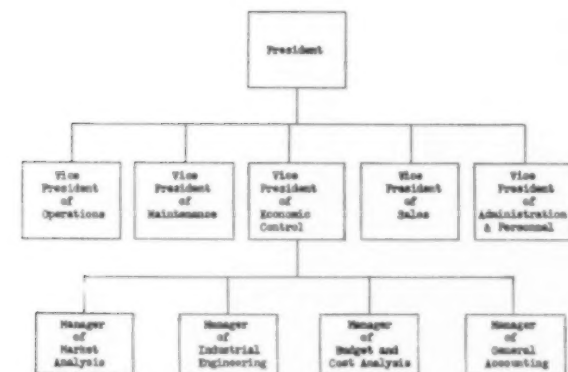
CHART OF INTEGRATED SYSTEM

Exhibit A briefly depicts a logical development of an integrated cost control system. Management must give consideration to all functions involved when developing the philosophy. From this evolves the principles to be applied when redesigning the necessary records to install revised systems in each functional area. Each function will then have the ability to generate

basic unit data that is consistent and correlated. This data applied in an analysis of physical operations and movements will provide comparable costs because all factors are developed on a common base.

Variances in price, efficiency, operating process, volume, etc. are isolated as they occur. These cost deviations can be specifically identified and reconciled between control reports and financial statements without extensive analysis. Sales pricing and special analyses can be developed on the same basis and mesh with other reporting. This is what is meant by an integrated cost control system that is capable of producing sound and intelligible management control. The advent of electronic computers and other IDPM systems has made it practical to handle large quantities of data and maintain proper integration.

EXHIBIT B
ORGANIZATIONAL STRUCTURE



RESPONSIBILITIES

- | | | | |
|------------------------|-----------------------|-----------------------------------|--|
| - Market Analysis | - Labor Standards | - Budget Preparation | - All Necessary Bookkeeping and Accounting |
| - Schedule Improvement | - Procedures | - Financial Planning | |
| - Forecast | - Operations Research | - Revise Budget | |
| | - Planning | - Budgetary Control | |
| | - Job Evaluation | - Cost Standards | |
| | | - Analyse and Interpret Variances | |

FUNCTIONS OF ECONOMIC CONTROL

A few of the more progressive companies

have approached the problem of integration by a direct means. A Vice President of Economic Control is appointed to co-ordinate the cost control activities. Exhibit B illustrates the approximate organization of such a company.

This insures that the measurement of any activity within the organization is not as subject to reprisal for criticism because of rank. It centralizes the responsibility for a completely integrated system of profit planning and profit measurement. It is recognized that there are many arguments pro and con to this array of force in one area. However, management apparently has discovered how useful the information of such activities as market research, cost accounting, industrial engineering, budgeting and finance can be when all statements and reports employ the same terms of reference and can be reconciled. Management must recognize the need for a co-ordinated approach.

There are many ways in which this matter may be approached. What is important is that management gives full support to the man appointed to the job regardless of the position or title. Management support must be given by:

- Delegating full responsibility of the cost control function,
- Providing necessary authority to carry out this responsibility.

The mere creation of a title does not assure success. Stature in any organization must be earned. The following characteristics are important for a man to warrant full management support:

- Knowledge of cost control theory,
- Background of practical experience in cost control programs,
- Ability to tactfully sell the program,
- Flexibility in approach, yet the courage to stand ground against opposition.

Top level management must be completely sold on the benefits of integrated cost control. The success of the program can be directly related to the degree of management support.

BOOK REVIEW

BUDGETING Principles and Practice

If you desire to add to or start a library on the general subject of Budgeting you will certainly want to inspect a new volume on the subject published by The RONALD PRESS COMPANY, 15 E. 26th Street, New York, 10, New York. The book, entitled BUDGETING - Principles and Practice, is authored by Mr. Herman C. Heiser, who is a specialist in business management and partner of the accounting firm Lybrand, Ross Bros. & Montgomery. The book is especially written for Business Managers, Budget Directors and their staffs. It is divided into three major parts - I. Budgeting for Planning and Coordination; II. Budgeting for Control; and III. Budgeting and Controlling Techniques. The price of the book is \$10.00.

EXCERPTS FROM CHAPTER NEWSLETTER



J. J. Ormsby
Newsletter Editor
New York City Chapter

Dr. Raymond Villers, head of the firm Rautenstrach and Villers, Management Consultants, provided the membership on January 19th with a stimulating discussion on "The Managerial Approach to Budgeting". Members of the audience included students from a number of colleges including Brooklyn, C.C.N.Y., Hofstra, N.Y.U. and Pace.

A digest of Dr. Villers' remarks follows:

"Effective budgeting means providing the tools for managing in advance rather than managing on the spur of the moment. A budget can and should be more than an estimate of expected income and expense. The budget approach has received increasing attention in recent years, particularly in the manufacturing industries where budgets make it possible for management to deal with problems ahead of time, instead of after the fact. Mr. Edmond S. LaRose, of the firm of Bausch and Lomb, used this approach successfully as early as 1931. However, this concept has taken many years to gain recognition and acceptance, and with the exception of a very few companies this approach was not followed until the last decade. The recent research study sponsored by Controllership Foundation shows the managerial approach

to budgeting now tends to be the rule rather than the exception. In other words, the budget is now widely recognized as the framework within which executives can operate to solve the fundamental modern management problems of coordination, cooperation, and control.

Organizing Coordination Within the Budget

"The sales forecast is the first step in organizing coordination through the budget. Most companies base their budgeting activities upon a sales forecast although the methods followed vary greatly from company to company. The second step is to relate all activities to such a sales forecast including inventory control, production planning, labor and material expense, capital expenditures and long-range planning. Here again, it appears that this is the current trend in industry.

"A sales forecast provides a framework of reference which must be in terms of total sales and product classes. Many companies feel they can reasonably expect actual total sales to be within 5 percent of budget, while the variance of actual sales from the budget may often reach 25 percent for specific items. This means that generally the stability of employment, a recognized factor of production efficiency, can be based upon the translation of the total sales forecast into a budget of the

number of employees rather than upon the forecast of production of specific items. Specific operations can then be conducted within the framework of production capacity defined by the budgeted number of employees. Thus, the use of the total sales forecast as a framework overcomes the obstacle created by the situation that sales of specific items cannot be forecasted with the same degree of accuracy as over-all product classes or total sales.

Methods of Obtaining Cooperation

"It is important to segregate the expense accounts by line of authority and responsibility and submit to each supervisor, at the time of the budget, only those accounts over which he has a reasonable amount of control. Studies indicate this approach is being followed to some extent by many companies, but that only a few follow it fully. It may be objectionable to refer to this segregation as 'controllable' vs. 'noncontrollable' expenses as most of the latter are actually under the control of top management. Terminology such as 'decentralized expense' vs. 'nondecentralized' expense is preferable.

"There should be joint responsibility in determining the budget standards. They should be jointly determined by the man-in-charge, the accounting department, and eventually the industrial engineering department before being submitted for final approval.

"There should be a provision for monthly revisions. This is recognized to be a controversial issue as some companies are not in favor of frequent revisions. However, an alternative can be provided by using a variable budget. Systematic monthly revision of the budget stimulates cooperation and cost-consciousness of everyone concerned. A comparison of actual performance against original budget and against revised budget permits the evaluation of variances and a clear measurement of the following:

- (a) The ability of management to budget.

- (b) The ability of the supervisor to stick to the revised budget he himself requested.
- (c) The probable impact of past actual performance and of anticipated revisions upon the originally planned earnings for the year.

Organizing Control Within the Budget

"There is need for cross-checking the budget estimates before a final recommendation of the budget can be made to management. This would require a different approach from the one followed at the time of preparation of the budgets. This approach might include break-even analyses supplemented by graphical presentations.

"Everyone responsible for a budget should receive a monthly report comparing actual vs. budget and including only the accounts over which he has some degree of control. Variances should be followed up and the person responsible for the budget be given the opportunity of explaining the variances. A number of companies find that this technique also affords an opportunity for constructive guidance and training of subordinates."

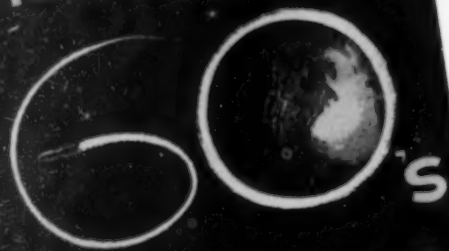
Following Dr. Villers' talk the following controversial questions were raised by the members and discussed:

1. To what extent should evaluation be made or action be taken on cost reduction projects at budget time? Dr. Villers stated that the budget department should be responsible for throwing light on the situation and assuring that the budget is realistically based with respect to present conditions.
2. Where should the budget function fit in from a staff or operating level standpoint?

Dr. Villers felt that management should be trained to go to the operating department head for a plan of operation but should depend on the budget department for analysis of the plan.



PLANNING the FaBULOUS



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TOPICS

THURSDAY MORNING
The Uproarious Sixties

Long Range Planning

THURSDAY LUNCHEON
Are Labor Bosses Bigger
Than Uncle Sam?

THURSDAY AFTERNOON

1-Promoting Profit Planning
2-Integrating Direct Cost,
Standard Cost, Flexible
Budgeting & Return on
Investment

3-Operations Research
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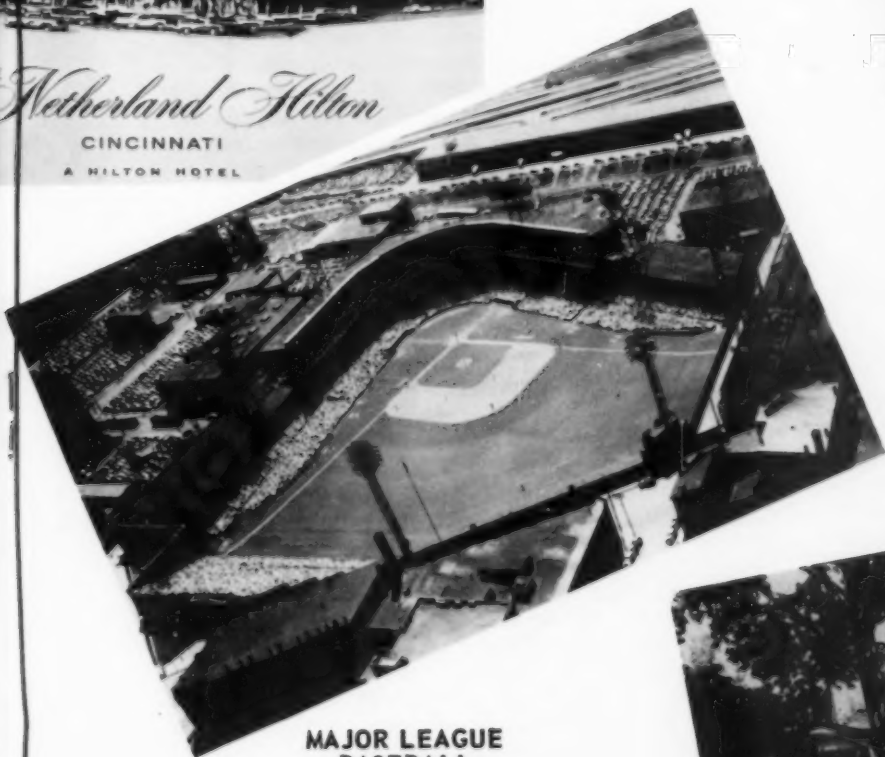


Cincinnati
in
Daylight

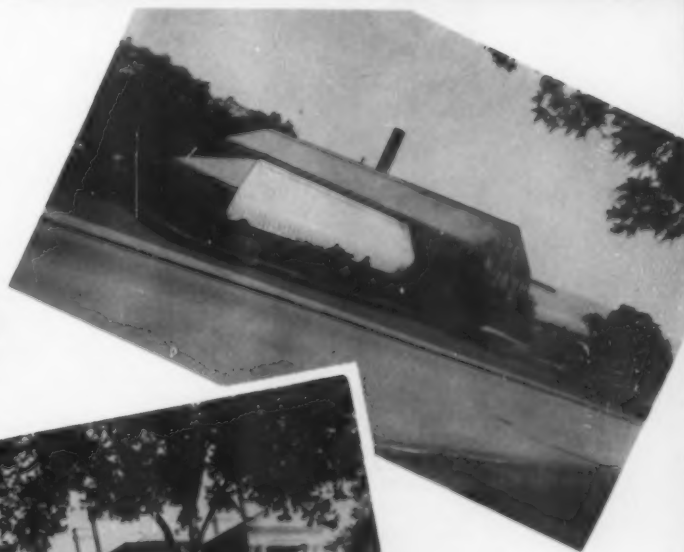
Conference
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Cincinnati
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MAJOR LEAGUE
BASEBALL
Dodgers vs Reds
nite games
May 18 and 19



By: George R. Morton
Budget Manager
Automatic Electric Company
North Lake, Wisconsin

PREPARING THE ANNUAL BUDGET

A comprehensive appraisal of the role of budgeting in any organization is presented in this article. The company philosophy on profit planning and control is best exemplified by the role management places in the overall budgeting process. Liberal quotes of wisdom regarding Budgeting, Profit Planning and Control are sprinkled throughout the article to emphasize the author's approach to the value of total planning. The benefits to be gained are there, if we but know how to uncover them.

Lawrence A. Appley in his book "Management In Action" makes a statement about budgets which should inflame each one of us with determination and enthusiasm to use budgets effectively. He says:

"Probably of all the devices management keeps in its mothball fleet of unused tools, the most valuable is the budget. Management has no need for a mothball fleet. Every weapon that exists should be on the firing line, and so should new, proven devices as they are developed."

Why do we need business budgeting?

The primary purpose of a business is to render a service to customers, community, investors and employees. It must survive and grow to be of continuous service. To insure the continuity of this service it becomes necessary to make a profit. The aim of business budgeting is to find the most profitable course through which the efforts of the business may be directed, and to control operations so that the business will remain on that course. Thus, business budgeting becomes synonymous with profit planning and control. It is more than an expense control, more than a sales forecast — actually a major operational blueprint for the complete company.

This philosophy of profit planning and control is of relatively recent origin and many companies

which think they are using budgets effectively today are using only partial budgets. They do not have complete comprehensive budgets or, in other words, a program for profit planning and control. However, the trend in the past decade has been to extend budgeting to include the planning, coordination, and controlling of the entire operation of a business. In fact, the objectives of budgeting can be divided into two principal parts — planning and coordination first and control second. These two parts complement each other and both are required for a complete and successful program. Companies which have completely developed this concept of budgeting classify it as a "cornerstone of management policy".

WHAT IS REQUIRED?

What does it take to establish a successful budget program?

First, the one who shoulders the responsibility for coordinating the program must have a clear concept of what is to be accomplished and how it is to be accomplished. He must understand fully the aim of the program; the attitude with which he must approach it; the problems that will be encountered in budgetary techniques, human relations and top-management support. He must also know the solutions to these problems or at least have an objective approach that will result in solutions. He can not hope to communicate to others any more clearly than he conceives.

The budget director and his staff must be more than accountants. They must develop the perspective of top management. This attitude which considers problems from the viewpoint of the company as a whole is essential to building a successful budget program. Frequently, those in the financial division are not qualified to take on this kind of a job. Their management viewpoint is not broad enough to merit the budget assignment.

Someone has said:

"Accounting is a process of being excruciatingly exact about a lot of arbitrary assumptions."

This statement is indicative of the limited perspective of many individuals. To use a common expression, they have a tendency to see only the trees, and to disregard the forest. They do not realize that technical ability is not the principal qualification of a successful member of the management team, but that successful dealings with people, which achieve coordination and control of operations, are much more important than the ordinary accounting approach.

NO READY MADE SOLUTIONS

There are no ready made solutions to many budget problems. The Budget Director must take the research attitude toward his job, the humble scientific spirit of inquiry and analysis. Mr. J. Curran Freeman, Controller of Dresser Industries, Inc., has said: "Accountants are doomed to frustration unless they learn to analyze and synthesize." In the Budget Director's research effort every possible source of knowledge should be utilized. This includes contact with others, information from trade papers and associations, and information from the various publications of professional organizations.

Dr. Samuel N. Stevens, former president of Grinnell College, gives us a statement which he says crystallizes the requirements for responsible leadership in modern business today. He says:

"Modern business requires management leaders who possess above all other abilities integrity of character, a capacity for creative objectivity, analytical judgment, and a deep appreciation of the essential worth of every human being. Given these qualities technological know-how may be easily acquired and effectively used."

Let us examine this statement in more detail. The first requirement listed is integrity of character. We can gain further insight as to the full meaning of this by referring to Webster's dictionary. Integrity is defined as such rectitude (undeviating adherence to moral standards) that one is incapable of being false to a trust, a responsibility, etc.

The next requirement listed is a capacity for creative objectivity. Creative can be explained simply as meaning productive. Objectivity is the state of being detached, impersonal or unprejudiced.

Analytical judgment is defined best by dividing it into two components. Analysis is an examination of anything to distinguish its component parts or elements separately, or in their relation to the whole. Judgment is the operation of the mind, involving comparison and discrimination, by which knowledge of values and relations is mentally formulated — also, the power of arriving at a wise decision.

The last requirement listed — a deep appreciation of the essential worth of every human being — is self-explanatory.

I will repeat the latter part of Dr. Stevens' statement —

"Given these qualities, technological know-how may be easily acquired and effectively used."

FIXED BUDGETS VERSUS VARIABLE BUDGETS

Should the budget be fixed or variable?

Much literature has been written on the relative merits of fixed and variable budgets. Usually the authors take sides in favor of one or the other. I believe the majority today will vote in favor of variable budgets, but I intend to point out that both types of budgets, when effectively used, have their proper place and can be used at the same time within the same company.

Variable budgeting has been criticized as being essentially a device of cost control rather than a true budget. The critics believe that any method that permits the budgeter to dispense even partly with sales forecasting is not budgeting.

In my opinion this is a poor application of variable budgeting and should not condemn variable budgeting as such. Profit planning requires definite and specific sales forecasting in order to reach the profit planning objectives. Advocates of fixed budgets maintain that expenses should be budgeted only at the forecasted sales and production volumes. But there are serious disadvantages in this procedure. Under this method the analysis of expenses and the determination of budgetary allowances cannot be started until the sales and production budgets are completed. As a result budgeting expenses becomes a step in preparing the operation budget that must be completed in an inflexible sequence. Further, fixed budgets for expenses are not effective tools for controlling the expenses.

When variable budgets are used the analysis of expenses is removed from the inflexible sequence of steps in budget preparation. The variable expense budgets provide data for the quick calculation to fixed expense allowances for the profit planning budget at the predetermined sales forecast volume as well as data for quick determination of budget allowances at actual volume for expense control.

Variable budgets have the additional advantage of providing data for cost - volume - profit analysis, or, as often called, breakeven analysis. An understanding of the relationships between costs, volume, and profits is of primary importance to effective profit planning and control. Flexible budgets facilitate the determination of the effect on profits of (a) changes in fixed costs, (b) changes in variable costs, (c) changes in sales quantities, (d) changes in sales mix, and (e) changes in sales price. The factual information developed about the behavior of costs and profits under changing conditions is invaluable in many areas of managerial decisions such as - whether to accept certain business at a specified price or not, whether to aggressively sell products A or B, whether to expand manufacturing capacity.

In a recent survey of 344 companies with formal budget programs 175 companies, or 51 per cent, use cost - volume - profit analysis. Although a complete and sometimes adequate budget program may be developed without utilizing these techniques, the use of such techniques will significantly add to the understanding and usefulness of budget procedures. In companies that accept budgeting as a complete profit planning and control program the most significant single factor in profit planning is the relationship between costs, volume and profit.

FIXED COSTS DEFINED

How do we identify fixed and variable costs?

Fixed costs are those items of cost which remain constant in amount for a given period regardless of normal fluctuations in sales volume or productive activity. They accrue with the passage of time and are sometimes called period costs. The reason for their inflexibility may be management decisions made in prior periods, management decisions on a short term basis, union agreement, statute, or the infeasibility of any other plan. The reference to normal fluctuations in volume implies that a definite range of activity must be anticipated, for few costs would remain unchanged over the entire range of activity from zero to full capacity.

VARIABLE COSTS DEFINED

Variable costs are those items of cost which vary directly with the volume or activity in a department or in any other subdivision of the concern.

SEMIVARIABLE COSTS DEFINED

Semivariable costs possess some of the characteristics of both fixed and variable costs. They vary with activity but not in direct proportion thereto. These costs can be separated into fixed and variable components and once this is completed the components are treated the same as other fixed and variable costs.

Some of the more complicated varieties of semivariable costs may vary in relatively small steps or in a slight curve. As stated by Glenn A. Welsch in his book "Budgeting", "For practical purposes step and curved costs are generally classified as semivariable costs and budgeted on a straight-line basis within the relevant range."

BASE FOR MEASURING ACTIVITY

With the definitions of costs as to variability completed, the next step is to select a satisfactory unit of variability to which variable costs can be related. Any base used to measure activity should meet the following requirements:

1. A true and consistent relationship to activity
2. Easy to use
3. Readily understood

Some of the more common bases used in manufacturing departments are:

1. Direct labor dollars
2. Direct labor hours
3. Machine hours
4. Physical units of measure (pounds, tons, etc.)

DETERMINING COST VARIABILITY

The next step in the classification of costs is to determine the variability of each type of expense in each department. A study of each expense account will prove that many of the items can be readily identified as either fixed or variable. The problem remaining, then, is to determine the fixed and variable components of the semivariable costs. Several techniques have been used to determine cost variability such as:

1. Graphic Correlation
2. Method of Least Squares
3. Direct Estimate
4. Combination

Graphic Correlation - This technique is used to analyze the relationship between historical volume data. If costs have been poorly controlled

or if changes have been made in accounting classification, organization, methods of manufacturing, or management policies the results may be misleading. At best it only tells us how costs have varied in the past and this may be a guide as to how they should vary in the future.

The graphic analysis consists of the preparation of a graph with costs on the vertical scale and volume on the horizontal scale. Cost data are plotted on this graph and a visual trend line is drawn through the various points. The point at which the trend line intersects the vertical axis at zero volume represents the fixed expense and the slope of the line represents the variable cost rate.

The reliability of this information should be checked carefully. One of the best ways to do this is to verify or identify the fixed portion of the expense by another technique. For example, if analysis indicates that the foreman's salary is the only fixed portion of indirect labor, the amount of the foreman's salary should equal the fixed component of indirect labor as determined by the graph.

Method of Least Squares — This method is mentioned primarily to point out the reasons for not recommending it. It is a mathematical device for determining the line of best fit on a scatter chart. However, its use is rather time consuming and it does not recognize abnormalities in the data. I have found that judgment is much more important than any theoretically accurate mathematical approach.

J. A. Campbell comments on the use of judgment in "Common Sense Budgeting for Manufacturing Expenses" (NACA Bulletin, July 1, 1949) as follows:

"The question of using judgment in budget allowances affects both fixed and variable expenses and affects them so much that the better the judgment the better the budget. Strict reliance on experience is always the easiest way because we can usually find out what our experience has been. But this is not budgeting — it is merely analysis. With the very real possibility of troublesome times ahead, budgeting requires judgment, good judgment, and judgment based on a realistic, economy-minded philosophy."

Direct Estimate Method — This method may be most helpful in determining the variability of manufacturing service department expenses. In many cases the analysis of historical costs will be of little help and we must resort to other tools. For example, in our company the nature of services rendered and the organization of certain service departments has been changing continuously for a number of years. Our Technical Ser-

vices Department started as the Inspection Department. Later it assumed the dignity of the Quality Control Department. The services continued to expand to include tool and machinery engineering, cost reduction, and manufacturing process lists. This resulted in changing to the present name. In our Production Control Department the adoption of new ideas and the latest data processing techniques have resulted in a more or less continuous program of changing procedures.

With budgets under continuous review and established for a limited period of time, refined statistical procedures are not always required to determine cost variability. Errors in judgment will come to light when variations from the budget are analyzed and with the resulting improved judgment accurate budgets may be set within a relatively short period of time.

Combination Method — If historical data are either lacking or unreliable when analyzing costs in manufacturing departments a combination of methods can be used. Expenses can be budgeted at two or more levels of production. Plotting these data on a scatter chart will give results similar to those obtained with historical data. However, it has the advantage of emphasizing the plan instead of past experience.

OBJECTIVES

When discussing profit planning and control it might be advisable to stop and reflect upon the basic ingredients of planning. First, we must choose some goals or objectives. When the objectives are agreed upon, the second step in planning is revealed. What programming is required to attain the objectives?

In the early stages of installing a comprehensive budget, the primary objectives may be to establish budgetary techniques and to motivate individuals to use these techniques willingly and to recognize the budget as a useful tool for planning and controlling operations. To accomplish the latter the Budget Director must conduct a continuous budget education program so that executives and supervisors alike will have a clear understanding and appreciation of the objectives of budgeting.

Once the installation of comprehensive budgets has been accomplished, attention can be directed toward the real purpose of the program. Mr. T. F. Bradshaw, Financial Vice-President of Atlantic Refining Company, has given us a fresh viewpoint on these objectives in his address to the 8th annual NSBB national conference. He says:

"We feel that budgeting is an orderly way of helping management to accomplish four aspects of its job. First setting goals,

second making plans to achieve those goals, third changing plans when conditions warrant and finally creating an atmosphere for accomplishment."

The objective added by Mr. Bradshaw is "creating an atmosphere for accomplishment."

The ultimate goal of profit planning and control is the measurement and control of profit. We are all familiar with the percentage of return on sales as a measure of profitability. However, in recent years more companies have come to realize that the probability of earning maximum profits is greater if they are measured as a return on capital employed. This concept is still relatively new and, as a result, there is no general agreement on the elements of such a computation. But the advantages of this plan far outweigh the lack of precise agreement on the exact method of calculation.

The objectives of a profit planning and control program, then, will include such items as higher turnover of assets, increased profit margins, decreased fixed or variable costs and higher return on capital employed. These objectives should represent the actual plan of operations. They should be built upon attainable standards, yet standards which are sufficiently difficult that they present a challenge to the organization for accomplishment.

SALES FORECAST

In our profit planning program, one of the first steps to take is the forecasting of sales. To many individuals in accounting work, sales forecasting is as unexciting as a chorus girl in a flannel nightgown. But some very good budget plans have failed and have been discarded because they were not backed up by good sales forecasts. The sales forecast is the foundation of profit planning and control in a manufacturing or trading corporation. Such forecasting is an art, not a science. It is based on good judgment strengthened with facts. Of course, more informative facts make possible judgment of higher quality and should result in better sales forecasts.

As pointed out by the National Industrial Conference Board in their publication "Forecasting In Industry" (Studies in Business Policy, NO. 77) four principal methods of forecasting are in common use among companies surveyed:

1. Jury of executive opinion
2. Sales force composite
3. Statistical analysis
4. Combination

The jury of executive opinion method is one of the oldest and simplest methods of forecasting.

It is a process of combining and averaging the views of the top executives. Naturally, the results of such a method may cover a wide range. When facts supporting the opinions are absent or extremely limited the method may result in no more than group guessing. When the juries are supplied with factual background material, such as sales statistics, economic forecasts and correlation analyses the method can be a careful process of forecasting probable future sales.

The sales force composite method can be divided into two principal variations. It may be a collection of estimated future sales from each salesman, estimated privately or in consultation with the branch or regional manager. The latter method is preferred because of the combined judgment of both salesman and manager. The second popular variation of this method is to have the estimates made by the sales executive staff. This requires less time from the sales executives, but eliminates any advantage accruing from the salesman's special knowledge or future probabilities.

Companies using the sales force composite method along with various checks and balances have experienced successful forecasting with a margin of error between 5% and 10%.

Statistical methods can be divided into three types:

- I. Correlation
- II. Trends and Cycles
- III. Mathematical Formulas

Successful use of these methods depends to a great extent upon the skill and judgment of the worker. Also, the specific tools that are discovered depends to a large extent upon the nature of the individual business. For example, companies making automobile tires are able to forecast sales by using a simple formula.

Companies using these methods usually employ specialists, such as seasoned statisticians, for this work.

The fourth method of forecasting sales is the combination or multiple-method approach. Since no method of sales forecasting carries a guarantee against misuse, most companies do not rely upon a single approach. Independent forecasts from different methods can be compared and, when found to be in reasonable agreement, combined to form one that is much more reliable than one based on a single approach.

PRODUCTION, INVENTORY, AND COST OF SALES BUDGETS

One of the most fertile areas for the research efforts of the Budget Director is the conversion of sales quantities to sales dollars and cost of

sales budget. Closely related to cost of sales are production and inventory budgets. Statistics can be developed for the principal relationships. For example, if standard costs are used, sales dollars can be converted to standard cost of sales by using ratios of average pricing mark up to standard cost for the various product classifications. Because of the importance of product mixture this must be detailed by individual product classifications as much as possible.

Continued research effort can be used to convert standard cost of sales into the elements of material, labor and burden. Known variations from standard that are likely to be incurred can be added to the standard cost. It is at this point that the variable expense budgets already mentioned are called upon to determine the fixed expense allowances for the profit planning budget at the predetermined sales forecast volume.

The subject of participation in setting the budgets should not be overlooked. All expense budgets should be prepared under the supervision of the line or staff executive responsible for results in the area being budgeted. Dwight Morrow has said, "The world is divided into people who do things and people who get the credit." Regardless of the amount of assistance you may give a line or staff supervisor in setting his budget, be sure that he gets the credit for setting it and accepts it as his budget.

Inventory requirements should be determined next and when these budgets are combined with costs of sales, production budgets will be complete.

Lack of control of inventories has frequently been a principal cause of business failure. The cost of carrying inventories can vary from 10% to 25% of their value, depending largely upon the importance of such factors as obsolescence and depreciation. Therefore, in order to reduce both capital requirements and inventory expense, the inventories should be maintained at a minimum which is consistent with the requirements of the business.

It is impossible to develop satisfactory inventory and production budgets without well defined inventory policies. One of the advantages of budgeting is that it will extend the planning function into this area and form the formation of inventory policies. A few of the major problems to be considered are:

1. Maximum capital to be invested in inventories.
2. Length of production period.
3. Manufacturing for stock for either customer service or employment stabilization.
4. Raw material and work-in-process requirements for continuous flow of production.

One of the best tools for budgeting inventory is the inventory turnover ratio. It is the ratio of annual sales to average inventory and is more reliable if both sales and inventory are valued at "cost of sales". Sometimes sales are valued at "selling price", but this introduces another variable — the margin of profit made on each sale.

Past experience should not be relied upon exclusively when determining standard turnover rates. An evaluation must first be made of previous inventory policies and the degree of success in controlling inventories. If past experience reflects inefficiencies it may be difficult to determine what the ratio should be. However, by introducing proper procedures more accurate computation of ratios can be expected in the future.

Once the inventory turnover rates have been decided upon, they can be applied to the sales forecast for each product group to calculate the the inventory budget.

G & A AND S & D BUDGETS

Budgets for general and administrative expenses and selling and distribution expenses can be established in much the same manner as budgets for manufacturing expenses. However, they will normally have a higher fixed component as compared with variable. In my own experience I have found it to be practical to treat these expenses as 100% fixed for the limited period covered by the budget. Someone has said "The accuracy which management requires is only that which permits it to reach sound conclusions and make sound decisions." Coupled with this philosophy we recognize that, in our business, sales effort is expended well in advance of sales and the amount of this effort is planned in advance for the period budgeted, regardless of results.

ADDITIONAL RESPONSIBILITIES

The budget director's job is not finished by expressing his company's plans for the coming year, or for a longer period, in financial terms. His part in the planning function of management must include much more than this — more is required to insure the success of the budget program. He must anticipate problems in such areas as top-management support of the budget program, sales forecasting, budget education, human relations, development of standards, flexibility, and follow-up.

These problems are not solved by kicking them around, but by diving into them. They are not good excuses for lack of accomplishment, but present a challenge to plan ahead and develop a program to minimize or eliminate their interference with the smooth operation of profit planning and control. To do this the budget director may have to be bold. Boldness is the opposite of fear, the

CONCLUSION

most paralyzing of all emotions. Someone has written "Be bold - and mighty forces will come to your aid". Arthur Gordon explains that the mighty forces are nothing more than the latent powers that all of us possess: energy, skill, sound judgment, creative ideas, and even physical strength. Someone else has said, "Creativity comes from a mental state of aggressive self-confidence".

My opening remarks contained a plea to develop determination and enthusiasm to use budgets effectively. Socrates said, "Let him that would move the world, first move himself." Edward B. Butler had this to say about enthusiasm. "Every man is enthusiastic at times. One man has enthusiasm for thirty minutes - another man has it for thirty days, but it is the man who has it for thirty years who makes a success in life."



NSBB ANNOUNCES

NEW CHAPTERS

DON BACON, Chairman of the Chapter Formation Committee, continues to be one of the most active and productive members of the NSBB organization. Through his efforts and the able assistance of his fine team of Regional Area Chairmen he has three new chapters to add to the fast growing NSBB roster. Two of these are located in the South - Chattanooga and Western Florida - with the other in Don's now native state Illinois at Decatur.

The chapters officially are NSBB Chapters number 37, 38 and 39, with the induction order being: Chattanooga, Decatur and Western Florida. The Western Florida chapter will headquarter in Tampa and serve the general area surrounding this fast growing section of Florida.

At the time this article was being prepared for publication, charter membership was still open at the Decatur and Western Florida chapters and we will report later on the status of these chapters after they have been presented their charters in April.

R. Visscher Millar presented the Chattanooga Charter on February 17 in Tampa. Pictured below are the chapter's charter members along with NSBB National President R. Visscher Millar, and Melvin Aichholz, NSBB Administrative Secretary, who attended the charter presentation ceremonies.

The Chattanooga Chapter officers are President, PAUL M. ELDERING, Vice President, RAYFORD McLaurin, and Secretary-Treasurer, J. INMAN KIDD.

The Chattanooga and Western Florida Chapters will be included in NSBB Region V, with Decatur adding strength to Region III.



Shown in the above picture from left to right are: James Arnold - Combustion Engineering, Inc.; Robert P. Perry - Combustion Engineering, Inc.; Mr. Melvin Aichholz; Mel Conner - Ross Meehan Foundries, Inc.; Paul M. Eldering - Bowaters Southern Paper Corporation; Jack Seymour - Combustion Engineering, Inc.; Rayford McLaurin - University of Chattanooga; Mr. R. Visscher Millar; Ray Powell - Special Products, Inc.; and W.E. Bailey - Combustion Engineering, Inc. Not present for the above picture was J. Inman Kidd Chattanooga Gas Company.



GEORGE L. KLAUS - Mgr. Budget Dept., The Brunswick-Balke-Collender Co., Chicago, Illinois
IRVING LEVINE - Controller, Kleen-Stik Products, Inc., Chicago, Illinois
DONALD E. PAUL - Statistician, Laclede Gas Company, St. Louis, Missouri
JAMES E. HANLON - Jr., Financial Analyst, Carter Carburetor Div. of ACF Industries, St. Louis, Mo.
JAMES W. GEISSAL - Consultant, Peat, Marwick, Mitchell & Company, St. Louis, Missouri
HOWARD E. OLSEN - Mgr. Cost Dept., Wilson Rubber Co., Div. Becton-Dickinson Co., Canton, Ohio
GEORGE EDWARD MANI - Chief Accountant, Wilson Rubber Co., Div. Becton-Dickinson Co., Canton, Ohio
DAVID W. REED - Jr., Member of Treasurer's Staff, The Morgan Engineering Co., Alliance, Ohio
ROBERT T. RUTH - Cost Supervisor, The Morgan Engineering Co., Alliance, Ohio
RALPH H. PINGREE - Budget Director, Boston Insurance Co., Boston, Massachusetts
WILLIAM F. MIDDLETON - Budget Admin., CBS Electronics, Everett, Massachusetts
WILLIAM F. ARMSTRONG, Jr. - Section Mgr. Budgets & Cost Analysis Dept., Temco Aircraft Corp., Dallas, Texas
GEORGE W. YENERICH - Specialist - Budgets & Measurements, Hotpoint Div. of General Electric Co., Chicago, Illinois
JOEL H. JACOBS - Mgr. of Systems & Budgets, Import Motors of Chicago, Inc., Northbrook, Illinois
DAVID WAYNE BAKER - Commissary Manager, Kankakee State Hospital, Kankakee, Illinois
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NORMAN GROSS - Budget Manager, Warner-Lambert Pharmaceutical Co., Morris Plains, N.J.
JAMES J. WOODS - Budget Manager, Thomas J. Lipton, Inc., Hoboken, N.J.
WALTER ALLEN STONE - Secretary & Assistant Treasurer, Ritter Company, Inc., Rochester, N.Y.
GEORGE L. PULIS - General Budget Manager, Massey-Ferguson, Ltd, Islington, Ont., Canada
F. K. DUREN - Budget Mgr., St. Louis - San Francisco Railway Co., Springfield, Mo.
ROY F. LESTER - Controller, Sunset Country Club, St. Louis, Missouri
S. FRANK VITEZNIK - Cost Accountant-Budget Supervisor, Aluminum Co. of America, Vancouver Washington Works, Portland, Oregon
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EDWARD J. FLYN - Accountant, The Brooklyn Union Gas Co., Brooklyn, N.Y.
A. ARTHUR OSTER - Planning Mgr., Allstate Insurance Companies, Philadelphia, Pennsylvania
ROBERT J. VERIGOOD - Accounting Supervisor, Armstrong Cork Co., Bradley, Illinois
EARL C. HEAP - Head Cost & Budgets Dept., Coolerator Div.-McGraw-Edison Co., Albion, Mich.
J. E. SHOCKLEY - Asst. Budget Director, The Electric Storage Battery Co., Philadelphia, Pa.
EDMOND P. BERTHEAUD - Budget Department Manager, Keasbey & Mattison Co., Ambler, Pa.
BOB D. HUFFMAN - Budget Analyst, Nortronics-Div. Northrop Corp., North Redondo Beach, Calif.
JOHN L. BALDERSTON - Chief-Budgets & Planning, Atomics International, Div. of North American Aviation, Inc., Canoga Park, Calif.
JAMES R. ASHBY - Semi-senior, Management Services Dept., Touche, Niven, Bailey, & Smart, Los Angeles, Calif.
ORVILLE H. MASTIN - Chief Budget Accountant, National Farmers Union Service Corp., Denver, Colo.
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WALFORD T. NILSSON - Admin. Asst. to V.P., Continental Aviation & Engineering Corp., Toledo, Ohio
PAUL R. MAROSKE - Mgr. Plant Accounting, Continental Aviation & Engineering Corp., Toledo, Ohio
WILLIAM B. TREGO - General Accountant, State Automobile Mutual Insurance Co., Columbus, Ohio
RONALD J. RAPPOPORT - Management Services Staff, Ernst & Ernst, Cincinnati, Ohio
ARTHUR W. ERMER - Controller & Asst. Treas., Tyer Rubber Co., Andover, Massachusetts
JOHN C. WILLIAMS - Senior Staff Accountant, CPA, Touche, Niven, Bailey & Smart, Pittsburgh, Pa.
WILLIAM ARTHUR QUALLICH - Financial Analyst, Cleveland Graphite Bronze-Div. Clevite Corp., Cleveland, Ohio
PAUL B. HOFFMEISTER - Manufacturing Cost Analyst, Ford Motor Co., Cleveland Fdry., North Olmsted, Ohio
H. D. JENKINS - Section Supervisor of Cost Analysis, Ford Motor Co., Cleveland Fdry., Olmsted Falls, Ohio
SYDNEY L. HILL - Budget Manager, The Electric Storage Battery Co., Euclid, Ohio
RICHARD F. SMERDA - Industrial Engineer-Section Supervisor, Thompson Ramo Wooldridge-Valve Div. Cleveland, Ohio
JOHN E. RONALTER - Controller, C. J. Bates & Son, New Britain, Connecticut
JAMES A. LEIGH - Supervisor of Operating Budgets, Cummins Engine Co., Columbus, Indiana
WARREN B. THOMPSON - Mgr. Budget Dept., Archer-Daniels-Midland Co., Minneapolis, Minnesota



NEWS ABOUT MEMBERS

Congratulations to JIM SNYDER (Kalamazoo Chapter) who has been appointed Controller of Albion Malleable Iron Company's newly acquired Muncie, Indiana Division. Kalamazoo also reports that JOE McCARTHY of the Michigan Carton Company has been appointed Secretary of his company. JOE will still be responsible for the company's budget program.

Our best wishes for success are forwarded to ROD DODYK who is leaving Detroit for New York to assume the position of Manager of Manufacturing Accounting for American Standard.

BILL HINDMAN of the Louisville Chapter is leaving for Chicago on April 1 to fill a new position with his firm Lybrand, Ross Bros. and Montgomery. Bill's position will be that of Assistant Regional Director-Management Services.

CHARLES MANTEUFFEL (Louisville Chapter) announced a new affiliation recently. Charley is now applying his talents with the firm of Welenken and Master, CPA. His position is that of Planned Management Consultant.

The CLEVELAND CHAPTER held a one day seminar on the Management decision simulation program using the IBM 650 Computer. The program was an all day affair and a vote of thanks is due the Data Processing Division of IBM Corp. of Cleveland, Ohio, who sponsored the event.

DICK CONNELLY and WALTER BUNGE participated in the Industrial Management Engineering Conference held February 5 and 6 at the Illinois Institute of Technology.

Past National President, HAL MASON delivered a talk to the Kalamazoo Accountants Association on Distribution Cost Budgeting.

St. Louis reports that JOHN T. BRAXTAN, who has been associated with the Bemis Bros. Bag Co. for a good many years, has been elected Assistant Secretary of that firm.

J. G. (Bob) NAGRO of the New York Chapter has recently been elected Comptroller of the M. W. Kellogg Company of New York.

RICHARD E. AUSTIN of Westinghouse Electric Co. and the Pittsburgh NSBB Chapter was a Session Chairman at a National Association of

Accountants Conference entitled "Objectives and Techniques of the Operating Budget" which was held on March 31 and April 1 & 2 in Pittsburgh, Pa.

VERN RUTTER of the Chicago Chapter was elected Trustee of the new village of Riverwood, and we add our congratulations to those heaped upon him by his Chicago friends.

Detroit reports that BILL REYNOLDS has been promoted to Executive Vice President of Wood Parts Inc. as of January 1, 1960. Bill will also retain his present position with the Crawford Door Company.

HORACE J. HAYMAN, a charter member of the Boston Chapter, has been promoted from Assistant Director to Budget Director of Liberty Mutual Insurance Company.

An Orientation Seminar sponsored by the American Management Association and entitled "Profit Planning with Budgetary Control" will be held in New York on May 23-27 with two prominent NSBB men as speakers. They are CHARLES S. HOLSTEEN, Director of Budgets for United Air Lines and a Chicago Chapter member, and JOHN M. SCHULTZ, Manager Budget Division for The Atlantic Refining Co. and a Philadelphia Chapter member.

WARNER KNOBE, Comptroller of Hevi-Duty Electric Company and an NSBB member from Milwaukee will be a conference leader on Balance Sheet Budgeting and Cash Forecasting at a Financial Management Conference on April 20th. The conference is sponsored by the University of Wisconsin Management Institute and is on the campus of the University.

Three members of the Kansas City Chapter of NSBB were guest speakers for the National Association of Accountants budget seminar held at the University of Kansas City, March 1st. The general subject covered during the seminar was "Budgets -- Your Undeveloped Opportunity."

ARNOLD S. MICHEL NSBB Chapter Secretary discussed "Budgets-- How to Begin." "Budgets-- A Case Study" was presented by JAMES M. SELLERS with WESLEY M. SMITH, Chapter Vice-President completing the program with a talk on "Budgets - Obtaining Better Results."



NATIONAL RESEARCH COMMITTEE
C. O. WESSMAN - CHAIRMAN

NATIONAL COMMITTEE MEN AT WORK

The National Research Committee, composed of C.O. Wessman, Chairman, T.P. Condon, R. Dodyk, J.R. Groshong, G.C. Vock, E.H. Weinwurm and C.C. Benedict is presently engaged in the extremely important project of "Definition of Budget Terms". The first draft should be finished in time for the National Directors Meeting at the National Conference in May, 1960. When it is completed a copy of the draft will be sent to each Chapter President for review and comments. All members of the National Society for Business Budgeting, who are interested, will also receive a draft copy, if requested, for review and comment.

Since this is the first project, the Chicago area members of the Committee have been acting as the Task Force. In the future, a project will be assigned to a chapter and the National Committee will act as a review board. The list of projects is unlimited. So far the Committee has agreed upon the following additional research topics.

Administrative Expense Budget
Advertising Expense Budget
Balance Sheet Projection
Breakeven Point Analysis

Budget Manual
Capital Budget
Cash Budget
Engineering Expense Budget
Family Budget
Research Expense Budget
Sales Expense Budget
Sales Forecast

There must be other projects which can be used as research items. If there are any additions which you think of to this list, please send them to:

C. O. Wessman
Armour and Company
401 N. Wabash Ave.
Chicago 90, Illinois

Let us make the National Society for Business Budgeting a leader in its field which it rightfully is. One of the best ways is the issuance of authoritative Research Bulletins. It takes all of us! Let's pitch in and do our share.

C. O. Wessman
Chairman
National Research Committee

MILWAUKEE SENTINEL FINANCE

SUNDAY, NOVEMBER 24, 1946

BUDGET GROUP BORN AT RACINE

The nucleus of what is planned to be the first national association of budget and finance officers of industrial and commercial firms met Friday at Racine, Wis., and laid the groundwork for formal organization early in 1947. Guiding genius behind the new association is E. W. Buge, budget director of the S. C. Johnson & Son wax manufacturing firm at Racine.

Last week's conference, which attracted 25 budget directors from Wisconsin, Illinois, Michigan and Indiana, is the culmination of six months of pondering and planning by Buge to develop some means of liaison between the budget men in the nation's industry.

With today's profit slashing costs in production and distribution making the comptroller's job in business ever more important, much good can come from interchange of ideas on budgetary methods, Buge declares.

The forthcoming association, which may sectionalize according to types of industries, also will disseminate information by means of "Budget Roundup," a periodical, Buge said.

The organization committee named consists of Buge, T. O. Hutchinson of Upjohn Co., Kalamazoo, Mich.; F. B. Miles of Miles Laboratory, Inc., Elkhart, Ind., and Walter Bunge, budget director at Allis-Chalmers Mfg. Co. Budget planning today works as much as 20 years to the future in large concerns, Buge asserted. Johnson's plans ahead about three years, he said, revising by six month periods.

Remember When? . . .